

# RECOMMENDATIONS FOR IMPROVING TAXPAYER COMPLIANCE AND DEPARTMENT ADMINISTRATION

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## ■ TAXPAYERS' CONCERNS AND SUGGESTIONS TO DEPARTMENT

On June 21, 1999, the Indiana Department of Revenue conducted its Annual Public Hearing in accordance with the Taxpayer's Bill of Rights, the tenth time since the Taxpayer's Bill of Rights was adopted in 1989. State Revenue Commissioner Kenneth L. Miller presided at the Indianapolis meeting. The hearing's announcement was contained in the IT-40 Individual Income Tax Booklet, distributed through news releases and posted on the Department's Internet website. As in previous years, taxpayers were provided the option of attending the hearing in person or submitting written comments.

The Department has reviewed the proposals provided by the taxpayers, which are as follows:

### **Exemptions, Age 65/Blind**

A taxpayer attending the hearing voiced his concern about the inability to take the Age 65 or Older or Blind exemptions found on the IT-40 Individual Income Tax Form when an individual's income is derived from a trust. In his opinion, this is "blatantly discriminatory" and "discourages people from putting their assets into a trust." He was informed by the Department that any change in the current law would require the approval of the General Assembly to allow both the tax advantages of a trust and individual exemptions, since income from a trust is taxable to the trust and not to the individual.

### **Exemptions, Prorating/Out of State Taxpayers**

One taxpayer, who lives in Tennessee, wrote that it was "grossly unfair on Indiana's part" to prorate the exemptions for nonresidents with Indiana income. By doing so, he believes, Indiana taxes income, such as social security and interest, that it is not entitled. In reviewing his concerns, the Department cites IC 6-3-1-3.5(a)(13), which requires that the total amount of exemptions for

a nonresident taxpayer be reduced to an amount that bears the same ratio to the total as the taxpayer's income taxable in Indiana bears to the taxpayer's total income. Therefore, if an individual is taxable to Indiana on his total income (100%) then 100% of the Indiana exemptions would be allowed to offset the income. In most instances, it is believed that the nonresident's state of residence would allow similar exemptions compensating for any difference; however, in this particular case, Tennessee does not have an individual income tax.

### **Foreign Earned Income**

An individual wrote questioning the instructions for "Credit for Taxes Paid to Other States," and, in particular, the reference to foreign earned income and the use of federal Form 1116 as the only method of verification. The taxpayer believed that by referencing "earned" income, the Department would incorrectly exclude passive income, such as dividends, interest and capital gains. The Department notes that the instructions will be updated to refer to "foreign tax credit," and to allow the taxpayer to submit additional federal forms as verification.

### **Designation of Spouse**

An e-mail message was received from a taxpayer expressing her "dissatisfaction with the terms 'taxpayer' and 'spouse'" on the IT-40. She proposed "Taxpayer A and Taxpayer B." The Department will take the suggestion under advisement, but at the present time has no plans to make the proposed change since the current reference follows the federal form. Furthermore, "taxpayer and spouse" is intended to clarify married versus single filing status and is not gender specific.

### **Increase Exemptions**

A taxpayer wrote to encourage an increase in the amount of exemptions for senior citizens. He noted that a couple 82 years of age only receives a \$4,000

tax exemption, which "is hardly enough to ease the burden of making all our living expenses make due." The Department notes that the Indiana General Assembly increased the amount of exemptions in 1999. Next year if the couple's federal AGI (adjusted gross income) is less than \$40,000, they will receive a \$5,000 exemption.

### **Collection Process**

A married couple wrote about their concerns relating to the Department's collection process. According to the couple, they wrote the Department to establish a payment plan but received no response until the local Sheriffs Department contacted them. They believe the Department could have avoided this situation had there been better communication. The Department apologizes for any lack of communication. It encourages the use of District Offices located throughout the state to avoid the dependence on a response from the Main Office in Indianapolis. One of the full-service District Offices is located in the community in which the couple lives.

### **County Boxes**

A retired citizen wrote, suggesting that the Department add a box to its tax form to allow a designation as a retiree. He pointed out that there are boxes for a taxpayer to designate a county code for where he lived and/or worked. The taxpayer wrote: "I feel odd having to enter the two digit number in the box for where a person worked when I'm on retirement and don't work." At the present time, the Department plans no change to its form. It is always attempting to streamline the forms and not to add to them. The county boxes in question are designed to assist in the calculation of county taxes at the appropriate resident or nonresident rate. If a retiree, who is not employed, uses the same county code for both residence and employment, it is correct as the instructions specify.

### **Security of Social Security Numbers**

An e-mail message received from a taxpayer expressed concern that the Department was mailing its IT-40 Individual Income Tax Booklets unsealed. Since the Department preprints the taxpayers' names, Social Security Numbers and addresses on the tax form inside the booklet, the taxpayer believed "this is one way that identities could be stolen." Of particular concern was the easy access of the Social Security Numbers. The Department is sensitive to the issue of security and confidentiality of vital information. In 1996, the Department changed its address labels to remove the Social Secu-

urity Numbers from the outside of the tax booklet. The Department will explore the use of wafer closures as a possibility of sealing the booklet.

### **Rounding of Numbers on the Tax Form**

An individual asked why the Department provided a cent column on the tax form when it requested that amounts be rounded to the nearest dollar. The taxpayer preferred to enter the actual cents. The Department does encourage rounding to the nearest dollar but cannot mandate it; therefore, the option to use actual cents is still provided.

### **Use of Social Security Numbers on Schedule 1**

A taxpayer inquired why the Department removed the spouse's Social Security Number from the top of Schedule 1. The Department responded that only one Social Security Number is necessary as an identifier for the schedule, and many users, especially tax practitioners, feel it adds extra time in completing the form. The style is also consistent with the federal tax schedules that require only one Social Security Number, which is the already-designated primary taxpayer.

### **Overpayment of Estimated Taxes**

One letter inquired about several items, including the overpayment of estimated taxes. The taxpayer understood that if there were an overpayment of estimated taxes, the present system requires the overpayment to be applied to the next first quarter payment. The Department noted that a taxpayer has several options and does not have to apply all of an overpayment towards the next year's estimated account. It will attempt to clarify the instructions regarding this issue.

## **■ Improvements in the Training Of Department Employees**

### **Audit Division**

Regional seminars were presented to the in-state auditors and the out-of-state auditors as part of the Audit Division's education program during Fiscal Year 1999. Topics presented included use of projections; taxpayer credits; unitary filing of combined returns; nexus and throwback sales; legislative update, application of court determinations and departmental rulings; auditing for bankruptcies; safety and insurance audits; IRP (International Registration Plan) audit problems; and, advanced computer training and auditing programs.

## Personnel Division

During the past year, the Personnel Division Training Section taught 42 classes involving 610 Department of Revenue employees. These classes included the following core curriculum classes required for all of the more than 61 new employees hired this year: *ABCs of Discrimination*, *Basic Ethics*, *Customer Service*, *New Employee Orientation 101*, and *New Employee Orientation 102*. Other classes offered to employees in the last year include: *Union Settlement Updates and Violence in the Workplace*.

Supervisory training was another focus of the Training Section during the past year. *The Myers-Briggs Type Inventory* was administered to approximately 450 employees. In addition, approximately 40 supervisors finished a yearlong seminar on supervision and leadership. The Employee Handbook was revised and distributed to all employees.

The Training Section also continued an active Training Advisory Council to address the Department training needs; coordinated efforts with other state agencies to develop curricula and to jointly purchase materials; maintained an active membership in the State Training and Development Alliance; and administered the enrollment of Department employees in courses offered by State Personnel and other agencies or vendors. Plans for 1999-2000 including Computer Software Training, Cultural Diversity, Supervisory Training, a refresher on the ABC's of Discrimination, and continue to expand and further develop the Departments curriculum.

The task of converting our computer system to be Year 2000 compliant. In the process of converting the various systems additional training is ongoing. During the last year 436 employees were trained on the following systems: Business Tax, 87; Corporate Tax, 40; and Trust Tax, 309. This training is expected to be ongoing as new functions are added to the various systems.

### Employee Reclassifications

The Department of Revenue continues to undertake the task of having employees complete job analysis questionnaires. Seven divisions were reclassified in the last year with 317 approvals. Upon evaluation, an employees position classification may be upgraded, revised, or unchanged. In the last year, State Personnel and the Governor's Office approved a new professional position classification: Tax Analyst. This new classification was proposed by the Department of Revenue and since approval, this new classification has been utilized in various divisions.

In an effort to better serve our taxpayers 14 positions were transferred from two other agencies to the Motor Carrier Services Division for inclusion in the one-stop-shop. Twelve positions were transferred from the Bureau of Motor Vehicles to work with CDL permits, and two position were transferred from the Indiana Department of Transportation to work on Superloads.

## Department's Annual Tax Conference

The 1998 Annual Tax Conference was held October 21 and 22. The annual conference is designed to provide Indiana Department of Revenue personnel with information relevant to the agency's latest developments and services, ongoing projects, as well as reviews current procedures for processing tax returns.

This main focus of this year's conference dealt with the individual income tax form/booklet revisions (including new legislation), the updated Returns Processing System and the anticipated changes to the business tax return processing for the upcoming year. Close to 400 employees, representing all 16 departmental divisions, attended this year's conference.

### ■ *Improvements in Taxpayer Communication and Education*

## VITA/TCE Outreach Program Outdistancing State Increases

### Electronic Filing

Electronic Filing (E-File) within the Volunteer Income Tax Assistance/Tax Counseling for the Elderly Program (VITA/TCE) not only kept up with an increase in total State figures for E-File, but surpassed state increases. For tax years 1997 and 1998, the number of state returns filed via E-File were 340,904 and 442,811, respectively, indicating a 23% increase. Statistics indicate that ever-increasing numbers of these returns are being filed by VITA/TCE volunteers.

The VITA/TCE program is currently in an expansion stage. As the number of volunteer manned sites with access to computers grows, it is expected the program's number of E-Filings will, as well.

## **Low-income Dads Outreach Program**

One outreach effort of note begun by the Department in FY99 targeted primarily young, under-educated, unemployed or underemployed single fathers with little income tax knowledge. Mostly in their upper teens to early twenties and with one or more children, they were participants in a Father Resource Center program at Wishard Memorial Hospital in Indianapolis. Funded by grants from Lilly Endowment, the Indianapolis Foundation, Wishard Memorial Foundation and St. Margaret's Guild, the Center is designed to help the men obtain financial resources for either college or technical training, with a prerequisite of having their taxes calculated/ filed. With the help of the Indiana Department of Revenue and VITA/TCE volunteers, the young men not only filed their income taxes, but were given hope for a brighter future through education. Next year's program is scheduled for February 5, 2000.

## **Motor Carrier One Stop Shop Grows**

Since the Indiana Department of Revenue opened the doors to its new One Stop Shop in July 1998, it has incorporated several additional services for the motor carrier community.

On **February 15, 1999**, the Superload Vehicle Permit section and staff joined the Department of Revenue from the Indiana Department of Transportation (INDOT). In addition to the routine issuing of oversized and/or overweight vehicle permits, it issues approximately 12,500 specialized Superload permits a year, often coordinating with INDOT district personnel and engineers. With the help of its sister agency, the Department integrated 96% of the Superload permitting process into its One Stop Shop, and now provides a "seamless" ensemble of customer services.

On **May 17, 1999**, the Commercial Driver's License (CDL) endorsement section and staff joined the Department from the Bureau of Motor Vehicles (BMV). While CDL applicants still visit their local BMV branch to take the written test and turn in all their paperwork, the Department administers and approves the physical fitness and road skills test at its One Stop Shop in accordance with Federal Motor Carrier Safety Regulations. Indiana's unique medical review process uses a medical advisory board of qualified physicians to review questionable drivers' physical examination results.

The Department utilizes third parties to facilitate and administer the road skills tests, while it focuses on the auditing of the physical examinations and on resolution of driver problems as they are identified on the national

database and/or presented at a formal hearing. These services compliment our "single point of contact" objective.

On **June 7, 1999**, the Department integrated the vehicle titling and registration of intrastate vehicles that had been part of an interstate fleet registered under the International Registration Plan (IRP). Initially, this service was available only for Marion county registrations; but, as of August 26, 1999, it became available to all Indiana counties. This allows total titling and registration service for every IRP fleet at one place.

Indiana registered 236,000 CDL drivers during FY99. The BMV collected all CDL fees. The Department of Revenue collected \$1,200.00 for restricted agricultural licenses. (Agricultural licenses allow certain farm drivers to operate during specified planting and harvesting seasons.) The IRP intrastate titles and registration fees totaled \$9,230.50.

## ■ ***Increases in the Enforcement Capability of the Department***

The Department's Criminal Investigation Division conducts investigations of alleged violations of Indiana tax laws and secures necessary evidence to determine civil liabilities or to recommend criminal prosecution. In addition, this division works to enhance the overall agency efforts to collect and enforce those taxes falling under the administration of the Indiana Department of Revenue.

This Division continues to enforce the program for fuel dyeing in the State of Indiana. In conjunction with the Indiana State Police, there have been several arrests made involving trucks using dyed fuel on the highways.

This Division also monitors charity gaming operations throughout the state. During fiscal year 1999, the charity gaming activities of several not-for-profit organizations were investigated.

Other areas of monitoring and enforcement for this division include the Motor Vehicle Excise Tax, which collects the tax from Hoosiers who plated their vehicles outside of Indiana. This money is eventually returned to the county where the taxpayer legally resided.